



1976 report



WHONNOCK INDUSTRIES LIMITED

President's Report



During 1976 your Company once again employed strong market strategy to cope with the fluctuations of price and demand for our products.

The year 1976 was an expansion year for your company. In October we acquired the New Westminster Division of Triangle Pacific Forest Products Ltd., which will increase our Coastal production capacity by 75 million FBM. Purchase price for the Fixed Assets amounted to \$7,500,000. In addition, your Company purchased the assets of Garrett Enumclaw Company in a move designed to enlarge the base and product lines of our Manufacturing Division, thereby enabling the Division to accelerate its sales program.

We are optimistic that the U.S. market will improve in 1977. Although extreme weather conditions in January and February caused a temporary setback in the lumber market, these conditions have not changed the fundamentals: there is a demand for new housing, especially single family units. Mortgage money is readily available and rates are edging lower. We expect housing starts in the U.S. to be in the neighbourhood of 1.7 million units, which would result in a stronger lumber market for 1977.

Overseas markets are showing a firming of both demand and prices. The recent reduction in the Canadian dollar relative to the U.S. dollar will have a significant effect on your Company as it creates a more competitive position in world markets.

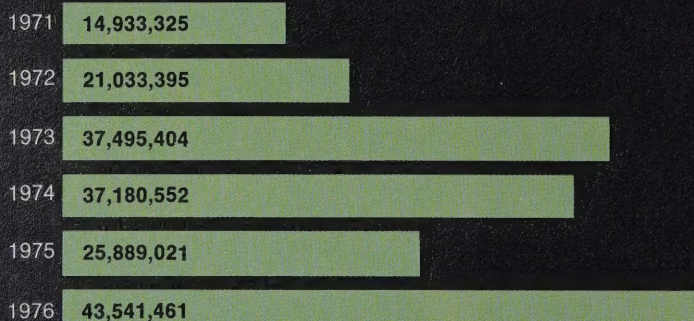
Over the past ten years your Company has carried out a carefully planned program of capital expenditures designed to make our plants modern, efficient production units. We feel that this objective has been achieved to date, but we will continue with the program of expenditures in order to further improve our efficiency.

On behalf of the Board of Directors,

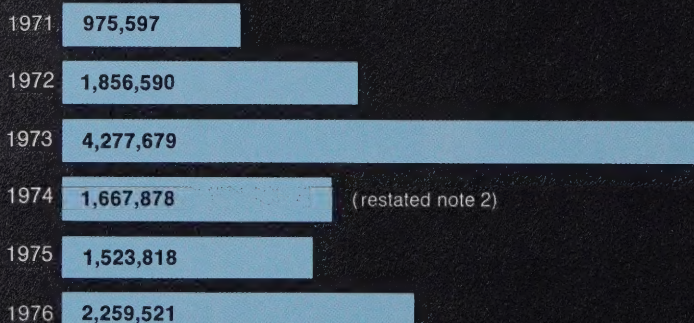
President and Chief
Executive Officer

FINANCIAL REVIEW

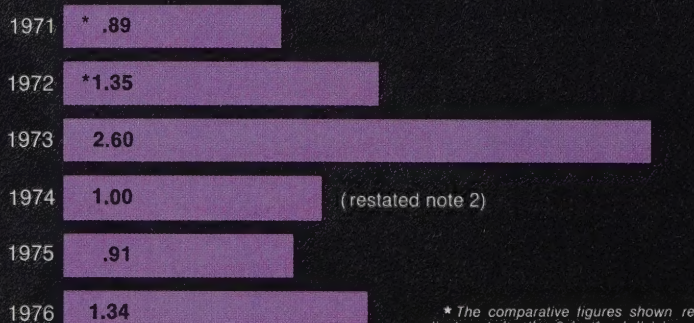
SALES \$



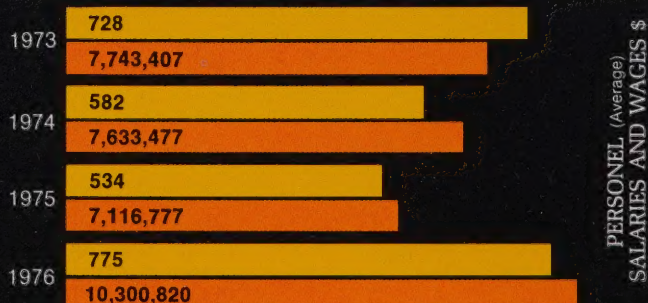
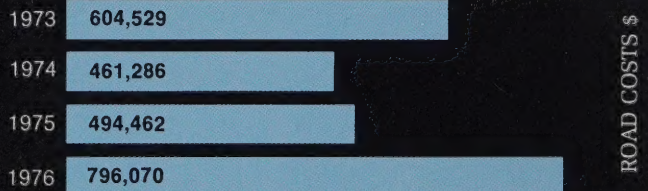
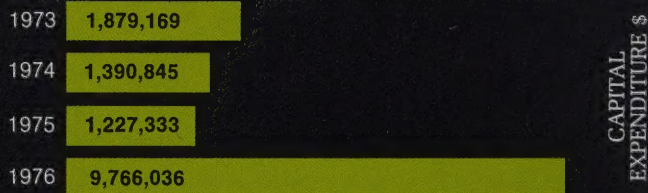
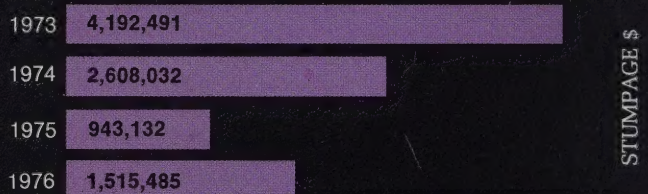
NET PROFIT \$



EARNINGS PER SHARE \$



* The comparative figures shown reflect an adjustment for the 2 for 1 subdivision of shares.



Coastal Operations



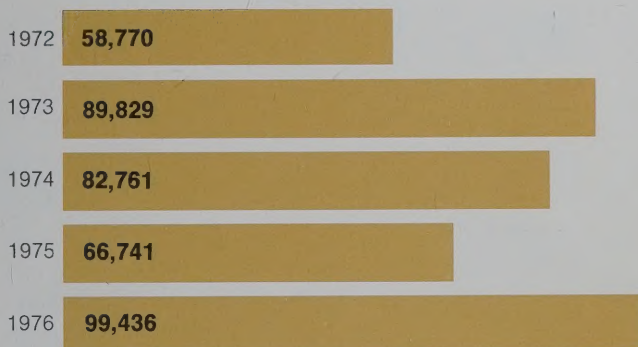
Lumber production for the Coastal operations at Whonnock increased from 66,741,000 FBM in 1975 to 92,200,000 FBM in 1976.

In addition, 7,237,000 FBM was produced during November at the newly acquired Pacific Pine Division at New Westminster.

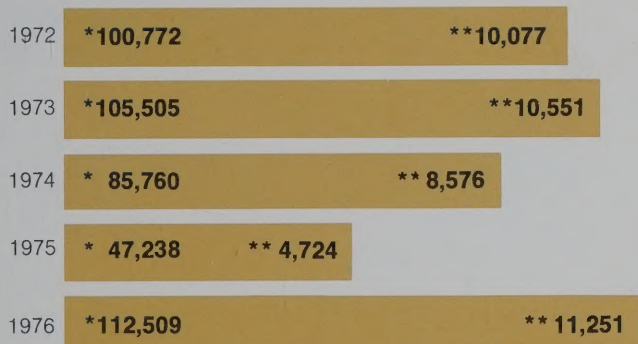
The new Shake and Shingle mill, which went into operation on February 2, 1976, is producing beyond expectations, with production up 30% over that of the old mill.

FIVE YEAR PRODUCTION

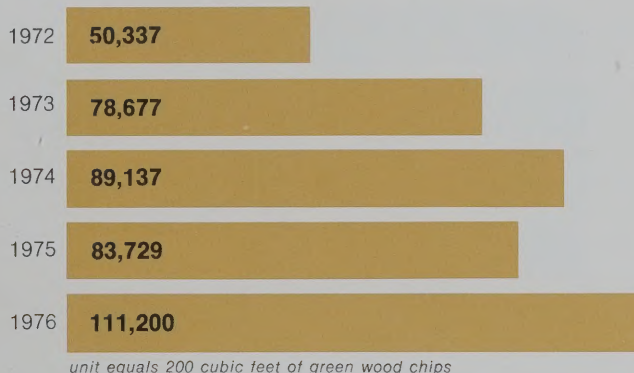
Lumber in 1,000 board feet



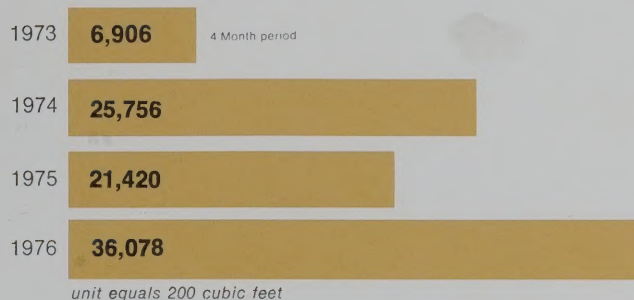
Shakes and Shingles in squares * in 1,000 board feet **



Wood Chips in units



Sawdust in units



LOG SOURCE

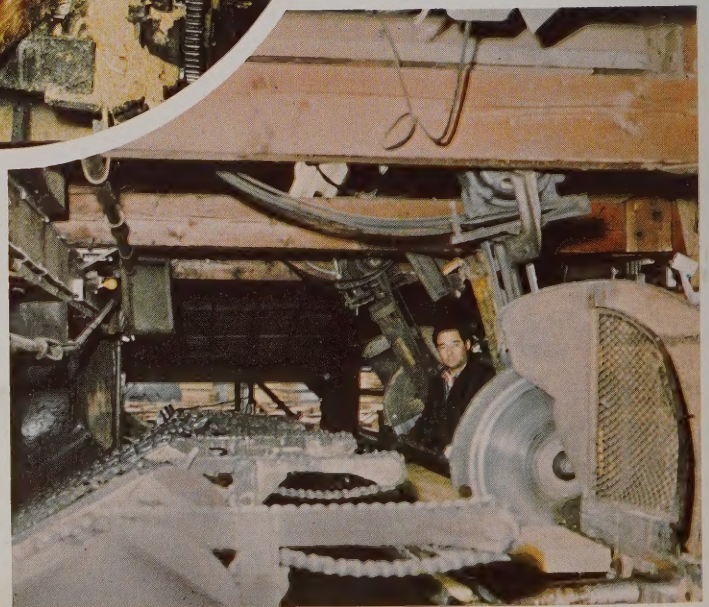
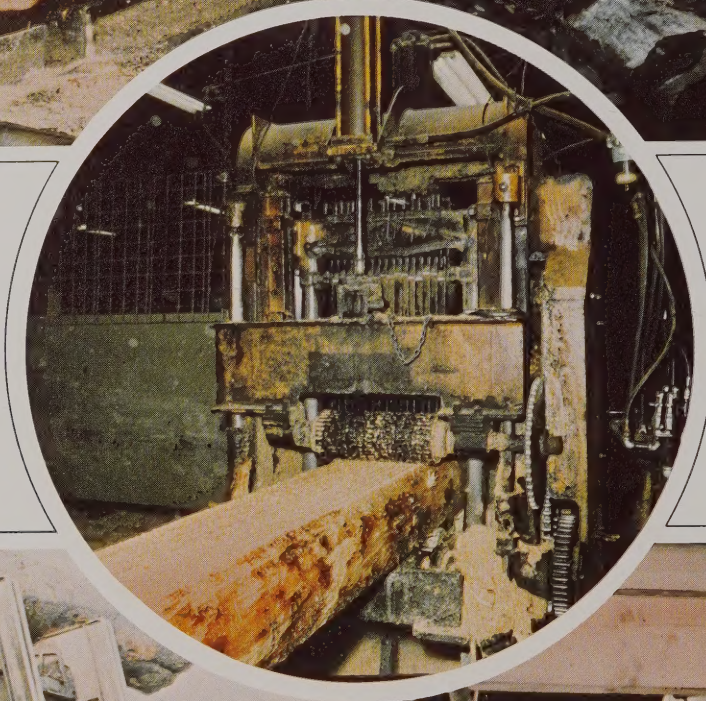
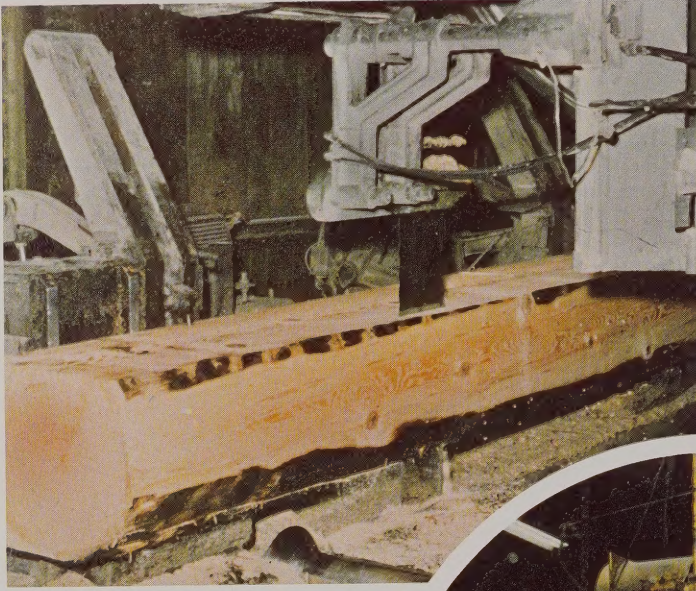
VOLUME THROUGH MILL - 1976
 182,426 Cunits
 Crown Cutting Permits - 62%
 113,104 Cunits
 Timber Berths and Licenses - 5%
 9,121 Cunits
 Local Purchases - 3%
 5,473 Cunits
 Open Market Purchases - 30%
 54,728 Cunits

*Cunit equals
 100 cubic feet

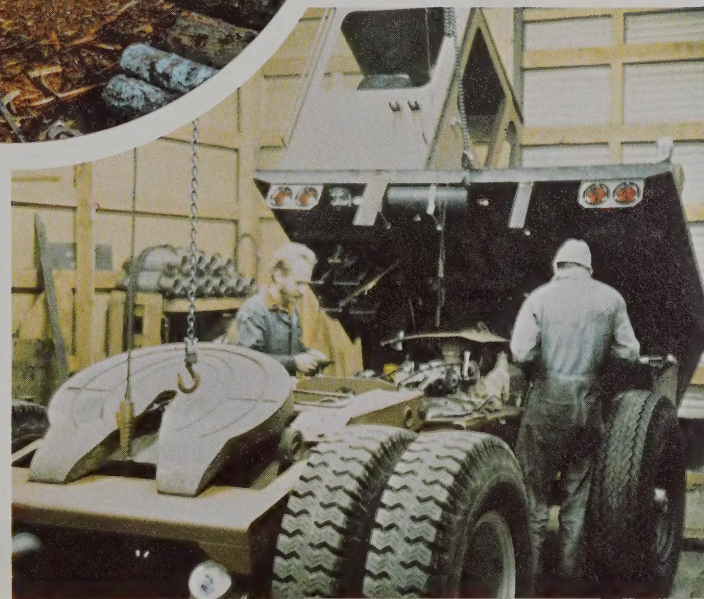


WHONNOCK INDUSTRIES LIMITED • new acquisitions in

PACIFIC PINE DIVISION New Westminster B.C.



GARRETT-WELDCO INC. Enumclaw Wash.



Interior Operations



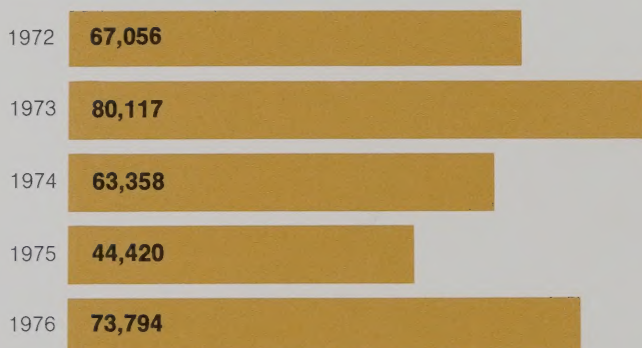
The re-establishment of a second shift on January 5, 1976 at the Interior operation, resulted in the year's production reaching 73,794,000 FBM, as compared to 44,420,000 FBM in 1975.

It is estimated that 1977 production will exceed that of 1976.

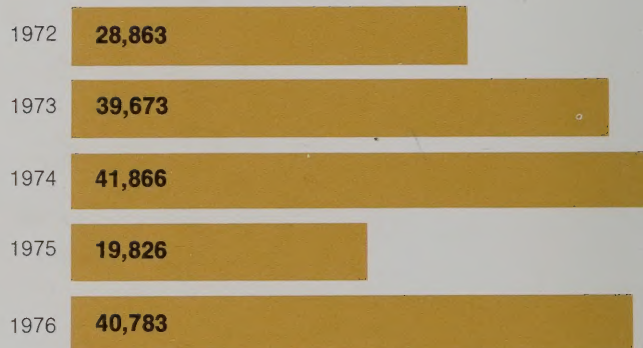
Plant modifications are planned for the year which will further increase the mill's efficiency.

FIVE YEAR PRODUCTION

Lumber in 1,000 board feet

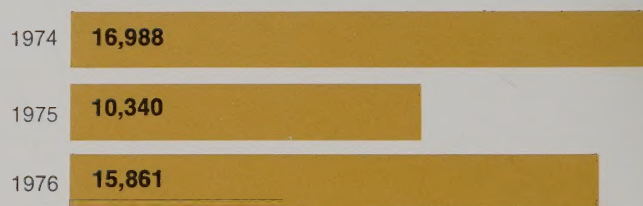


Wood Chips in units



unit equals 200 cubic feet of bone dry chips

Sawdust in units



unit equals 200 cubic feet

LOG SOURCE

VOLUME THROUGH MILL - 1976

- 139,591 Cunits
- Crown Cutting Permits - 82%
114,591 Cunits
- Timber Berths and Licenses - 9%
12,500 Cunits
- Local Purchases - 9%
12,500 Cunits

*Cunit equals 100 cubic feet

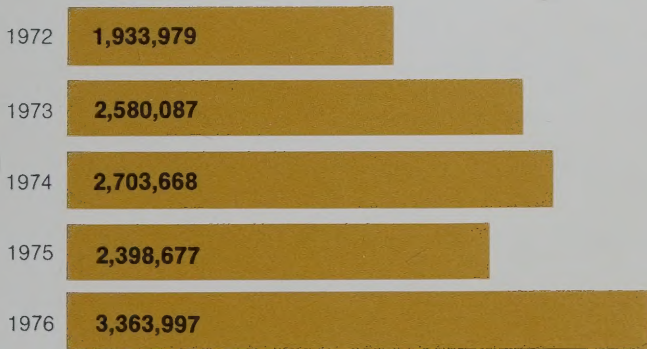


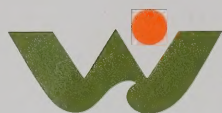
Weldco



Sales increased 40% over 1975 to \$3,363,997.
A further sales increase in this Division is anticipated in 1977 due to the acquisition of Garrett-Weldco Industries, Inc. of Enumclaw, Wash.
The Garrett-Weldco plant, in addition to custom fabrication work, manufactures logging skidders and portable sawmills, called "Ecologizers", for the forest industry.

FIVE YEAR SALES \$





WHONNOCK INDUSTRIES LIMITED

(Incorporated under the laws of British Columbia)

CONSOLIDATED BALANCE SHEET

AS AT NOVEMBER 30, 1976
(with comparative figures at 1975)

ASSETS

CURRENT ASSETS

	1976	1975
Cash and short-term deposits	—	\$ 211,958
Short-term investments, at cost	—	523,750
Trade and other accounts receivable	\$ 5,631,263	2,573,413
Insurance claim receivable	—	860,659
Inventories (note 3)	12,866,893	6,040,653
Prepaid expenses	131,780	40,457
	<u>18,629,936</u>	<u>10,250,890</u>

INVESTMENTS AND OTHER ASSETS

Investments and advances, at cost	653,687	535,174
Timber sale deposits	197,323	144,762
	<u>851,010</u>	<u>679,936</u>

FIXED ASSETS (Note 4)

Property, plant and equipment, at cost	21,657,238	11,674,750
Less accumulated depreciation	6,474,151	5,520,696
	<u>15,183,087</u>	<u>6,154,054</u>
Construction in progress	—	545,772
Timber, at cost less accumulated depletion	672,621	730,528
Logging roads, at cost less amortization	2,419,985	1,505,853
	<u>18,275,693</u>	<u>8,936,207</u>

EXCESS OF COST OF SHARES OVER UNDERLYING BOOK VALUE AT DATES OF ACQUISITION, less amortization

	<u>3,400,021</u>	<u>3,499,057</u>
	<u>\$41,156,660</u>	<u>\$23,366,090</u>

On behalf of the Board:

C. A. JOHNSON, Director
R. A. C. McCOLL, Director

Auditors' Report

To the Shareholders of
Whonnock Industries Limited

We have examined the consolidated balance sheet of Whonnock Industries Limited as at November 30, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at November 30, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
January 26, 1977

THORNE RIDDELL & CO.
Chartered Accountants

LIABILITIES

CURRENT LIABILITIES

Bank indebtedness, secured by assignment of
accounts receivable and inventories
Accounts payable and accrued liabilities
Income taxes payable
Current portion of long-term debt (note 5)

1976	1975
\$ 8,448,541	\$ 116,000
5,779,467	3,272,618
486,325	225,518
566,762	88,554
<u>15,281,095</u>	<u>3,702,690</u>

LONG-TERM DEBT, less current portion above (note 5)

<u>5,832,274</u>	<u>2,098,760</u>
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DEFERRED INCOME TAXES

<u>2,553,007</u>	<u>1,666,214</u>
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SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 6)

Authorized
3,071,996 class A common shares of no par value
928,004 class B exchangeable common shares of
no par value

Issued and fully paid
1,527,358 class A common shares (1975 — 1,508,408)
170,786 class B exchangeable common shares
(1975 — 165,736)

1,698,144

5,634,500	5,554,580
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AMOUNTS RECEIVED UNDER STOCK PURCHASE PLAN (note 6)

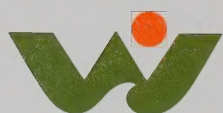
<u>5,529</u>	<u>9,556</u>
5,640,029	5,564,136

RETAINED EARNINGS

<u>11,850,255</u>	<u>10,334,290</u>
17,490,284	15,898,426

<u>\$41,156,660</u>	<u>\$23,366,090</u>
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Commitment (note 7)



WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED NOVEMBER 30, 1976
(with comparative figures for 1975)

	1976	1975
Sales	\$43,541,461	\$25,889,021
Costs and expenses		
Production	34,047,547	20,320,874
Selling and administration	3,300,054	1,813,520
Remuneration of directors and senior officers	419,873	374,237
Depreciation	963,012	875,157
Depletion and road amortization	327,597	203,430
Amortization of excess cost of shares in subsidiary companies	99,036	97,668
Interest on long-term debt	210,106	175,936
	<u>39,367,225</u>	<u>23,860,822</u>
Operating income	4,174,236	2,028,199
Other income		
Investment income	220,850	273,980
Gain on disposal of fixed assets	26,285	28,882
	<u>4,421,371</u>	<u>2,331,061</u>
Income before income taxes and extraordinary item		
Income taxes		
Current	1,185,197	968,473
Deferred	976,653	186,465
	<u>2,161,850</u>	<u>1,154,938</u>
Income before extraordinary item	2,259,521	1,176,123
Extraordinary item		
Excess of insurance proceeds over net book value of shake mill destroyed by fire, net of income taxes of \$35,000	—	347,695
NET INCOME FOR THE YEAR	<u>\$ 2,259,521</u>	<u>\$ 1,523,818</u>
Earnings per common share		
Basic		
Income before extraordinary item	\$1.34	\$.70
Extraordinary item	—	.21
Net income	<u>\$1.34</u>	<u>\$.91</u>
Fully diluted (note 6)		
Income before extraordinary item	\$1.20	\$.65
Extraordinary item	—	.18
Net income	<u>\$1.20</u>	<u>\$.83</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED NOVEMBER 30, 1976
(with comparative figures for 1975)

	1976	1975
Balance at beginning of year	\$10,334,290	\$ 9,547,260
Net income for the year	2,259,521	1,523,818
	<u>12,593,811</u>	<u>11,071,078</u>
Less		
Class A common share dividends	730,053	723,529
Class B common share dividends	13,503	13,259
	<u>743,556</u>	<u>736,788</u>
BALANCE AT END OF YEAR	<u>\$11,850,255</u>	<u>\$10,334,290</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED NOVEMBER 30, 1976
(with comparative figures for 1975)

	1976	1975
WORKING CAPITAL DERIVED FROM		
Operations	\$ 4,500,295	\$ 2,509,961
Proceeds from		
Disposal of property, plant and equipment	43,332	39,704
Issue of common shares and amounts received under stock purchase plan	75,893	27,604
Investments and other assets	40,308	26,000
Adjustments affecting excess of cost of shares in subsidiary companies over net book value	—	152,106
	<u>4,659,828</u>	<u>2,755,375</u>
WORKING CAPITAL APPLIED TO		
Purchase of property, plant and equipment		
Business acquisitions (note 2)	3,471,409	—
Other (1975 — net of insurance proceeds of \$427,263)	1,994,627	800,070
Construction of logging roads	796,070	494,462
Increase in investments and other non-current assets	287,039	322,858
Long-term debt paid or currently maturing	566,486	89,059
Dividends on class A and B common shares	743,556	736,788
	<u>7,859,187</u>	<u>2,443,237</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(3,199,359)	312,138
WORKING CAPITAL AT BEGINNING OF YEAR	<u>6,548,200</u>	<u>6,236,062</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 3,348,841</u>	<u>\$ 6,548,200</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED NOVEMBER 30, 1976

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of all subsidiaries each of which is wholly-owned, namely:

Whonnock Lumber Company Limited
Weldco Limited
Weldco (Alberta) Ltd.
Garrett-Weldco Industries, Inc.
Wolco Industries Limited
Holding Lumber Company Limited
Holding Forest Products Ltd.
Adams Lake Sales Co. Ltd.
Vanco Flight Craft Ltd.

The total excess cost of shares in subsidiaries over their net book values at dates of acquisitions was \$4,184,547. Out of this amount \$278,769 was allocated to the cost of property, plant and equipment and is being depreciated in accordance with the company's regular depreciation policy. The remainder of \$3,905,778 is being amortized on a straight-line basis over forty years, resulting in a charge against income of approximately \$99,000 a year.

Inventories

The logs and lumber inventories have been valued at the lower of cost (primarily average production cost) and net realizable value. The manufacturing inventories have been valued at cost which is lower than net realizable value.

Depreciation, amortization and depletion

Depreciation and amortization of plant and equipment is provided on a straight-line basis at rates (ranging from 6% to 20%) based on the estimated remaining useful lives of the fixed assets. Depletion is computed on the basis of timber cut while logging roads are amortized on a straight-line basis at 12½% per annum (1975 — 10% per annum).

Deferred income taxes

The company follows the policy of charging current earnings with the income taxes deferred by claiming capital cost allowance for tax purposes in excess of depreciation recorded in the accounts.

2. BUSINESS ACQUISITIONS

In late October the company acquired the fixed assets and inventories of the Garrett Enumclaw Company and the Pacific Pine division of Triangle Pacific Forest Products Ltd. The statement of income includes the relatively minor operating results of these businesses for November. A summary of the effect of these acquisitions upon working capital is as follows:

	Pacific Pine	Garrett Enumclaw Company	Total
Purchase price, including inventories	\$12,220,390	\$1,523,375	\$13,743,765
Less inventories, not affecting working capital	4,694,040	1,278,316	5,972,356
Fixed assets acquired	7,526,350	245,059	7,771,409
Paid from long-term bank loans	3,700,000	600,000	4,300,000
Working capital utilized	\$ 3,826,350	\$ (354,941)	\$ 3,471,409

3. INVENTORIES

	1976	1975
Logs	\$ 8,694,667	\$4,409,550
Lumber	2,453,502	1,321,656
Manufactured goods	1,718,724	309,447
	<u>\$12,866,893</u>	<u>\$6,040,653</u>

4. FIXED ASSETS

4. FIXED ASSETS				
	1976			1975
	Cost	Accumulated depreciation	Net	Net
Land	\$ 4,547,040	—	\$ 4,547,040	\$ 370,468
Buildings	3,179,482	\$ 631,874	2,547,608	1,421,281
Machinery & equipment	11,904,837	5,089,510	6,815,327	3,897,194
Automotive equipment	883,156	480,991	402,165	157,308
Other	1,142,723	271,776	870,947	307,803
	<u>\$21,657,238</u>	<u>\$6,474,151</u>	<u>\$15,183,087</u>	<u>\$6,154,054</u>

5. LONG-TERM DEBT

	1976	1975
Bank loan, repayable in annual instalments of \$370,000 plus interest at 1¼% above prime bank rates to be secured by a fixed charge on certain assets of Whonnock Lumber Company Limited and a floating charge on all other assets of that company	\$3,700,000	—
Bank loan, repayable in annual instalments of \$120,000 plus interest at 1½% above U.S. prime bank rates	\$ 600,000	—
8% Series A bonds, secured by a first floating charge on the assets of Whonnock Lumber Company Limited, maturing in 1986	2,000,000	\$2,000,000
11½% mortgage, repayable in annual instalments of \$8,969 including interest, due January 1, 1977	71,762	72,616
Timber purchase agreements at prime bank rates, current portion \$4,700 with balance repayable in annual instalments of \$6,967 including interest	27,274	31,698
5% promissory note	—	83,000
	<u>6,399,036</u>	<u>2,187,314</u>
Less current portion included in current liabilities	566,762	88,554
	<u>\$5,832,274</u>	<u>\$2,098,760</u>

Attached to the Series A bonds are 100,000 Series A warrants of Whonnock Industries Limited which under certain circumstances entitle the bond holders to call for the redemption in whole or in part of their holdings provided that the proceeds from such redemption will be used by the bond holder to purchase 200,000 Whonnock Industries Limited class A common shares at \$10 per share.

6. SHARE CAPITAL

The class A common shares are entitled to a preferential non-cumulative dividend of 40¢ per share per annum, before the class B common shares are entitled to any dividend. Any additional dividends shall be declared in equal amounts on all common shares.

The class B common shares (carrying ten votes per share) are exchangeable into class A common shares (carrying one vote per share) at any time at the option of the holder, on the basis of one class A common share for one class B common share. During the year 450 shares were so exchanged. 170,786 class A common shares are reserved for the conversion of class B common shares.

In 1974 the company established a stock purchase plan for its key executive employees whereby the employees agreed to purchase 25,000 class A and 58,200 class B shares at a price of \$3.33 per share (representing 90% of the closing price of the shares on the Toronto Stock Exchange on the day preceding the signing of the stock purchase agreement) and to be paid for in 120 equal monthly instalments without interest. Although the employees are legally obligated to complete the purchase, the employees have no interest in the shares until such time as they are fully paid for. During the year 18,500 class A common shares and 5,500 class B common shares were paid for in full and issued pursuant to the terms of the stock purchase plan.

In connection with the stock purchase plan and Series A warrants the company has reserved 203,500 class A and 48,200 class B common shares.

The above potential additions to issued class A and class B common shares have been reflected in the calculation of fully diluted earnings per share.

7. COMMITMENT

An actuarial evaluation in 1974 of the company's pension plan indicated an unfunded past service liability of \$150,000 which is being funded in equal annual amounts over the 15 years ending in 1988.

8. ANTI-INFLATION LEGISLATION

The company has operated within the anti-inflation program which establishes controls on prices, profit margins, compensation to employees and dividends to shareholders.



WHONNOCK INDUSTRIES LIMITED

HEAD OFFICE and REGISTERED OFFICE
655 / Two Bentall Centre
Vancouver, B.C. V7X 1H7

Officers

R. A. C. McColl,
Chairman and Chief Administration Officer
C. A. Johnson
President and Chief Executive Officer
H. L. Henri
Vice-President (Manufacture) and Assistant to the President
H. Kneteman
Executive Vice-President and Secretary
J. E. Villiers
Vice-President (Finance)

Directors

C. B. Delbridge, Vancouver, B.C.
H. L. Henri, Chase, B.C.
Arthur Holding, Chase, B.C.
C. A. Johnson, Vancouver, B.C.
H. Kneteman, Vancouver, B.C.
T. Evans Loughheed, Penticton, B.C.
R. A. C. McColl, Vancouver, B.C.
G. A. McGavin, Vancouver, B.C.

Auditors

Thorne, Riddell & Co., Vancouver, B.C.

Transfer Agent

The Canada Trust Company, Vancouver, B.C.

